

FOR CONSIDERATION

October 20, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Blauvelt (Mid-Hudson Region – Rockland County) – AERCO International Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions.

General Project Plan

I. Project Summary

Grantee: AERCO International, Inc. (“AERCO” or “The Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the cost to purchase new machinery and equipment.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Location: 100 Oritani Drive, Blauvelt, Rockland County

Proposed Project: Leasehold improvements to a new 150,000-square-foot building associated with the relocation of AERCO International, and the purchase and installation of machinery and equipment, furniture, and fixtures.

ESD Incentive Offer Accepted: April 16, 2010

Project Completion: June 2011

Number of Employees at Project Location:

Initial employment at time of ESD Incentive:	0
Current employment level:	145
Minimum employment on January 1, 2014:	150

Grantee Contact: Gary Schlegel, Vice President of Finance
159 Paris Avenue
Northvale, NJ 07647
Phone: (201) 768-2400 x 285
Fax: (201) 353-2405

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W930

Project Team:	Origination	Charles Radier
	Project Management	Simone Bethune
	Affirmative Action	Denise Ross
	Finance	Ross Freeman
	Environmental	Soo Kang

Regional Council: The Mid-Hudson Regional Council has been made aware of this item.

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Leasehold Improvements	\$3,924,846
Machinery & Equipment	558,733
Furniture & Fixtures	121,060
Relocation	<u>1,209,086</u>
Total Project Costs	<u>\$5,813,725</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$250,000	4%
Company Equity	<u>5,563,725</u>	<u>96%</u>
Total Project Financing	<u>\$5,813,725</u>	<u>100%</u>

III. Project Description

A. Background

Founded in 1949, AERCO International is a privately owned company that manufactures high efficiency boilers and water heaters for commercial buildings. The Company is a subsidiary of AHC Holding Company. AERCO's heating systems are used in schools, multi-family dwellings and government buildings. The Company pioneered a design for commercial, gas-fired water heaters in the United States, which became the industry standard for today's water heaters. It also developed a similar construct for the hydronic boiler marketplace. The design allowed water to be heated on demand, at a consistent temperature. In 1988, the Company introduced another innovation to fully modulate and condense a commercial, gas-fired water heater. This model coordinated the boiler's output to current demand, permitting ideal fuel conservation. AERCO has received industry recognition from three leading trade publications: Building Operating Management, Environmental Design & Construction, and The Air Conditioning Heating & Refrigeration News.

In 2008 AERCO operated out of 3 buildings in Northvale, NJ and had no operations in New York State. The Company hoped to consolidate and relocate to a single building for its manufacturing, engineering, sales and warehousing tasks that would allow them to focus on the New York market. At that time, the Company approached ESD to discuss opportunities for State financing that could help its relocation efforts. ESD provided early assistance by conducting site location searches for a suitable facility.

AERCO identified two potential sites that met its needs. One was located in Mahwah, NJ and was immediately available, but would require the Company to split its operations between New York and NJ. The other was located in Blauvelt, NY, and was in the process of being built. In 2009, AERCO followed up on the project site in Rockland County and, facilitated by an introduction to Rockland EDC by ESD, began discussions with the property owner to lease the site. Because the New York location required a substantially higher investment than the New Jersey location, ESD made AERCO an offer in March 2010 of \$250,000 from the Empire State Economic Development Fund to close the funding gap and encourage the Company's move to New York. ESD's assistance was required to make the Rockland site economically competitive to the alternative New Jersey site. In April 2010, AERCO accepted ESD's offer.

B. The Project

The Company has leased a 150,000 square-foot building, purchased and installed new processing equipment, fitted-out the space, and relocated its employees. The property is owned by Bradley Corporate Park and was leased to AERCO for a term of 10 years. The Company began relocation in April of 2011 and the building was fully occupied as of June 2011.

The Company has pledged to create 150 new Full-time Permanent Employees at the project site by

January 2014. They currently have 145 Full-time Employees.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$250,000 capital grant (\$2,500) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. AHC Holding Company will guarantee the grant repayment obligation of its subsidiary, AERCO International, Inc., in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's acceptance of ESD's offer (April 16, 2010). Equity is defined as cash injected into the project by the Company or by investors, and should be auditable through Company financial statements or Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
5. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Location for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.
6. Up to \$250,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) upon completion of the project, as evidenced by a fully executed lease and certificate of occupancy, employment of at least 136 Full-Time Permanent Employees at the Project Location and submission of documentation verifying project expenditures of approximately \$5.27 million, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 25% of the grant (\$62,500) will be disbursed upon documentation of the employment of at least 143 Full-time Permanent Employees at the Project Location (Employment Increment of 7), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$62,500) will be disbursed upon documentation of the employment of at least 150 Full-time

Permanent Employees at the Project Location (Employment Increment of 7), provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenses must be incurred on or after April 16, 2010 to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$250,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.
8. In consideration for the making of the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

The Recapture Amount is based on the time that has lapsed between when the Grant funds were disbursed and when the Employment Shortfall occurred. The Recapture Amount shall be calculated by aggregating the Recapture Amount for each disbursement of the Grant, which in each instance shall be equal to:

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.

The Grantee's number of Full-time Permanent Employees shall be deemed to be the greater of the number as of the last payroll date in the month of December for such year or the average employment for the 12 month period computed by quarter.

Baseline Employment	0
A	B
Reporting Date	Employment Goals
February 1, 2012	0+X+Y+Z
February 1, 2013	0+X+Y+Z
February 1, 2014	0+X+Y+Z
February 1, 2015	0+X+Y+Z
February 1, 2016	0+X+Y+Z

X = Grantee's Employment Increment that will be the basis of the First Disbursement of the Grant as described in section C.5 above (i.e. X=136, and Employment Goals shall equal $[0 + X = 136]$ if the First Disbursement is made, in the year such disbursement is made and for each year thereafter). If the First Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. Y=7, and Employment Goals shall equal $[0 + X + Y = 143]$ if the Second Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Second Disbursement has not yet been made then Y=0.

Z = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Z=7, and Employment Goals shall equal $[0 + X + Y + Z = 150]$ if the Third disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third disbursement has not yet been made then Z=0.

IV. Statutory Basis

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms.

As a result of this project, the Company will relocate to New York from New Jersey and create 150 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

The Company considered relocating within New Jersey or relocating New York. ESD's assistance helped to reduce costs and make the project feasible in New York.

3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.

Evaluated over a seven-year period, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$6,483,752;
- Fiscal cost to NYS government is estimated at \$250,000;
- Project cost to NYS government per direct job is \$2,854;

- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,470;
- Ratio of project fiscal benefits to costs to NYS government is 25.94:1;
- Fiscal benefits to all governments (state and local) are estimated at \$13,931,473;
- Fiscal cost to all governments is \$250,000;
- All government cost per direct job is \$2,854;
- All government cost per total job is \$1,470
- The fiscal benefit to cost ratio for all governments is 55.73:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$75,123,628, or \$441,766 per job (direct and indirect);
- The economic benefit to cost ratio is 300.49:1;
- Project construction cost is \$5,133,932, which is expected to generate 37 direct job years and 19 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.92 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is one year.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

4. The requirements of Section 10(g) of the Act are satisfied.

No residential relocation is required because there are no families or individuals residing on the site.

VI. Environmental Review

ESD staff has determined that the project constitutes a Type II action as defined by the New York State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the project.

VII. Affirmative Action

ESD's Non-discrimination and Affirmative Action policy will apply. AERCO is encouraged to include minorities and women in any job opportunities created by the project, and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the project.

VIII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

IX. Additional Submissions to Directors

Resolutions

New York State Map

Project Finance Memorandum

Benefit-Cost Analysis

October 20, 2011

Blauvelt (Mid-Hudson Region – Rockland County) – AERCO International Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the AERCO International Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms;
2. The project would be unlikely to take place in New York State without the requested assistance;
3. The project is reasonably likely to accomplish its stated objectives and that the likely benefits of the project exceed costs;
4. There are no families or individuals to be displaced from the project area; and be it further

RESOLVED, that the Corporation does hereby adopt, subject to the requirements of Section 16(2) of the Act, the proposed General Project Plan (the “Plan”) for the Project submitted to this meeting, together with such changes therein as the President and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, a copy of which Plan, together with such changes, is hereby ordered filed with the records of the Corporation; and be it further

RESOLVED, that upon written finding of the President and Chief Executive Officer of the Corporation or his designee(s) that no substantive negative testimony or comment has been received at the public hearing held on the Plan, such Plan shall be effective at the conclusion of such hearing, and that upon such written finding being made, the President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to AERCO International, Inc. a grant for a total amount not to exceed Two

Hundred and Fifty Thousand Dollars (\$250,000) from the Empire State Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the President and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the President and Chief Executive Officer of the Corporation or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the grant as he or she may deem necessary or appropriate in the administration of the grant; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other necessary approvals; and be it further

RESOLVED, that the President and Chief Executive Officer or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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AERCO International Capital
Blauvelt
Rockland County

